

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

BREEZY POINT, LLC,

Debtor.

BKY. No. 03-45440
Chapter 11

**AMENDED DISCLOSURE STATEMENT FOR LIQUIDATING PLAN OF
REORGANIZATION FOR BREEZY POINT, LLC, DATED AS OF AUGUST 19, 2004**

Steven B. Nosek
701 Fourth Ave. S
Suite 300
Minneapolis, MN 55415

Counsel for the Debtor and Debtor in
Possession, Breezy Point, LLC

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I. INTRODUCTION

Breezy Point, LLC (the “Debtor”) has filed the Amended Liquidating Plan of Reorganization for Breezy Point, LLC dated as of August 19, 2004 (the “Plan”). The Plan sets forth, among other things, the proposed treatment of claims and interests in accordance with title 11 of the United States Code (“Bankruptcy Code”). The Debtor hereby submits this Disclosure Statement (“Disclosure Statement”), which contains information with respect to the Plan. Capitalized terms not otherwise defined in the Disclosure Statement shall have the meanings ascribed to such terms in the Plan. Pursuant to section 1125 of the Bankruptcy Code, this Disclosure Statement is intended to provide adequate information to enable Creditors and holders of Equity Interests to make an informed judgment in voting to accept or reject the Plan.

The Debtor prepared this Disclosure Statement for use in the solicitation of acceptances of the Plan. The Debtor believes that the Plan is in the best interests of the Debtor and its Creditors. The Debtor recommends that all Creditors entitled to vote on the Plan cast their ballots to accept the Plan. The Debtor believes that confirmation of the Plan will provide the greatest and earliest possible recoveries to Creditors. Information about voting is contained in Article II of this Disclosure Statement.

NO PERSON IS AUTHORIZED BY THE DEBTOR IN CONNECTION WITH THE PLAN OR THE SOLICITATION OF VOTES FOR THE PLAN TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS WHICH ARE ATTACHED OR INCORPORATED BY REFERENCE OR REFERRED TO HEREIN, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MAY NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DEBTOR OR BY THE BANKRUPTCY COURT.

WHILE THE DEBTOR WILL FURNISH TO CLAIMANTS ENTITLED TO VOTE ON THE PLAN SUCH ADDITIONAL INFORMATION AS MAY BE REQUIRED BY APPLICABLE LAW PRIOR TO THE VOTING DEADLINE, THE DELIVERY OF THIS DISCLOSURE STATEMENT WILL NOT, UNDER ANY CIRCUMSTANCES, IMPLY THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS CORRECT AS OF ANY TIME SUBSEQUENT TO APPROVAL BY THE BANKRUPTCY COURT. THE DEBTOR ASSUMES NO DUTY TO UPDATE OR SUPPLEMENT THE DISCLOSURES CONTAINED HEREIN AND DOES NOT INTEND TO UPDATE OR SUPPLEMENT THE DISCLOSURES, EXCEPT TO THE EXTENT, IF ANY, MADE NECESSARY BY APPLICABLE LAW.

UNLESS OTHERWISE INDICATED, INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN GATHERED FROM VARIOUS DOCUMENTS, INCLUDING, BUT NOT LIMITED TO, THE FILES OF THE CASE, DOCUMENTS RECEIVED BY DEBTOR PRIOR TO AND DURING THE CASE, RECORDS OF THE DEBTOR, AND TAX RETURNS FILED BY THE DEBTOR, AND HAS NOT BEEN INDEPENDENTLY VERIFIED OR AUDITED. ALL STATEMENTS CONCERNING

FINANCIAL DATA ARE MADE IN GOOD FAITH AND ARE INTENDED TO BE AS COMPLETE AND AS ACCURATE AS POSSIBLE WITHIN THESE LIMITATIONS.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. ALL CREDITORS, HOLDERS OF EQUITY INTERESTS, AND OTHER INTERESTED PARTIES ARE ADVISED AND ENCOURAGED TO READ THE ENTIRE PLAN AND DISCLOSURE STATEMENT PRIOR TO VOTING ON THE PLAN. THE SUMMARIES OF THE PLAN AND THE OTHER DOCUMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE QUALIFIED BY REFERENCE TO THE PLAN ITSELF AND DOCUMENTS DESCRIBED IN THE PLAN AS BEING FILED PRIOR TO APPROVAL OF THIS DISCLOSURE STATEMENT.

The contents of this Disclosure Statement should not be construed as an attempt to provide legal, business, financial or tax advice. Therefore, you should consult your own legal, business, financial and tax professionals with regard to the solicitation of votes, the terms and provisions of the Plan and/or how the Plan will affect your claims or interests.

This Disclosure Statement has not been approved or disapproved by the Securities and Exchange Commission (“SEC”), nor has the SEC passed upon the accuracy or adequacy of the information contained in this Disclosure Statement.

A. Overview Of Chapter 11 Law

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, a debtor may attempt to reorganize its business for the benefit of itself, its creditors and other parties in interest. The commencement of a chapter 11 case creates an estate consisting of all of the legal and equitable interests of the debtor in property as of the date that the petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that the debtor may continue to operate its business and remain in possession of its property as a “debtor in possession” unless the Bankruptcy Court orders the appointment of a trustee. In this case, the Bankruptcy Court has not appointed a trustee and the Debtor has remained in possession of its property as debtor in possession.

The filing of a chapter 11 petition also triggers the “automatic stay” provisions of the Bankruptcy Code. Section 362 provides that the filing of a petition for relief under the Bankruptcy Code operates as a stay preventing the commencement or continuation of any actions or proceedings against a debtor, including any attempts to collect on pre-petition claims or to otherwise interfere with a debtor’s property or business. In a chapter 11 case, this automatic stay remains in full force and effect until the effective date of a confirmed plan of reorganization, except as otherwise ordered by the Bankruptcy Court.

A chapter 11 plan of reorganization sets forth and governs the treatment and rights of creditors and holders of equity interests with respect to their claims against and interests in the debtor. Although frequently referred to as a “plan of reorganization,” a chapter 11 plan also may provide for an orderly liquidation of some or all of a debtor’s assets, as here.

Section 1125 of the Bankruptcy Code provides that votes on a chapter 11 plan may be solicited only after a written disclosure statement has been provided to each creditor and equity interest holder who is entitled to vote on the plan. This Disclosure Statement is being presented to Creditors and holders of Equity Interests of the Debtor to satisfy this disclosure requirement.

B. Summary Of The Plan

The following is a brief summary of the Plan, which is qualified in its entirety by reference to the Plan.

The Plan provides for the sale of substantially all of the Debtor's assets to Whitebitch in accordance with the Whitebitch Purchase Agreement, a copy of which is attached as Exhibit 1 to the Plan. However, Whitebitch does not have an exclusive right to acquire the Conveyed Property. If another interested buyer submits a purchase agreement to the Debtor on substantially similar terms but for a higher and better offer, the Debtor will seek Bankruptcy Court approval to sell the Conveyed Property to such buyer. The procedures for submitting a competing bid for the Conveyed Property (the "Bid Procedures") are set forth in Exhibit 2 to the Plan.

BlueGreen Vacations Unlimited, Inc. ("BlueGreen") has informed the Debtor that it intends to submit a competing bid for the Conveyed Property. However, as of the date of this Disclosure Statement, the Debtor has not received any binding offers from BlueGreen or any other documents that would require BlueGreen to make a competing bid.

The Whitebitch Purchase Agreement provides that Whitebitch will pay the Debtor \$3.4 million (the "Purchase Price") for the Conveyed Property at the sale closing. The proceeds of the sale will go to Associated Bank Minnesota, which holds a first priority security interest and mortgage in substantially all of the Debtor's assets. Associated Bank has a claim against the Debtor in the amount of \$4,915,711.62. The sale of the Conveyed Property to the Purchaser will be free and clear of all liens, claims or encumbrances held by Associated Bank, Carlton Financial, Crow Wing Power, Brian Tollefson, d/b/a Pro Scape, Eric Binstock, d/b/a Siteworks Unlimited or Jim's Electric Company, Inc. In particular, the Purchaser will take the Conveyed Property subject to the real estate tax liens payable to Crow Wing Property and the recorded interests of Robert Bruns, Linda Hallman, Jean Osmund and Jonathan Schluck. The Purchaser will be responsible for paying the real estate taxes.

Carlton Financial Corporation holds either a leasehold interest or a first priority security interest in the Debtor's furniture, fixtures and equipment (the "Carlton Equipment") under a lease agreement with the Debtor (the "Carlton Financial Lease"). In either event, Carlton Financial's interest in the Carlton Equipment is senior to Associated Bank's interest in the Carlton Equipment. The Debtor's interest in the Carlton Equipment will be sold to the Purchaser pursuant to the Purchase Agreement. The Purchaser also will enter into a separate equipment purchase agreement with Carlton Financial whereby the Purchaser will purchase Carlton Financial's interest in the Carlton Equipment for \$337,500. Carlton Financial has not received post-petition lease payments from the Debtor since January 2004, and the Bankruptcy Court recently entered an Order finding that the lease payments, of \$18,297.19 per month, are to be treated as an Allowed Administrative Claim. The Debtor estimates that Carlton Financial will

have an Allowed Administrative Claim in the amount of \$146,377.52 as of the Effective Date. As a part of the sale structure, Carlton Financial has agreed to waive any Allowed Administrative Claim it may have against the Debtor in excess of \$18,297.19, which represents one month's lease payment.

Associated Bank has a valid, perfected security interest in all Cash Collateral generated by the Debtor's operations. The Plan also provides that Associated Bank will receive all Cash Collateral generated by the Debtor's operations through the Effective Date, less the sum of \$200,000, to apply to Associated Bank's Allowed Secured Claim. As of July 12, 2004, the Debtor's Cash Collateral Account had a bank balance of \$258,194.50. The Debtor estimates that its operations will generate an additional \$454,000 of Cash Collateral through the Effective Date of the Plan. Accordingly, the Debtor estimates that Associated Bank will also receive approximately \$510,000 of Cash Collateral to apply to Associated Bank's Allowed Secured Claim.

In exchange for certain releases under the Plan, Associated Bank has agreed to waive any right to receive a distribution under the Plan on account of any Deficiency Claim Associated Bank may have and release \$200,000.00 of its Cash Collateral, less any Cash Collateral used by the Debtor between July 1, 2004 and the Effective Date of the Plan, to which Associated Bank would otherwise be entitled. The Cash Collateral released will be distributed to the Debtor in order to fund the Plan Fund. Proceeds from the Plan Fund will be used to pay Allowed Administrative Claims, Allowed Unclassified Priority Claims, Allowed Other Priority Claims, U.S. Trustee fees and post-confirmation costs and expenses in full, with the balance to be distributed pro rata to holders of Allowed Unsecured Claims. Without the Plan Fund, there would be no monies available with which to pay anything to the holders of Allowed Unsecured Claims. The Debtor estimates that approximately \$100,000 of the Plan Fund will be available for distribution to creditors. The Debtor also estimates that the amount of Associated Bank's Deficiency Claim that it will waive will be approximately \$1,006,000.

Under the Plan, the Debtor will discontinue operating its business, and the Debtor's corporate existence will be deemed terminated 180 days after the Effective Date of the Plan. Each of Associated Bank, Carlton Financial and Whitebirch has participated in the negotiations that resulted in the Plan. If the Plan is confirmed by the Bankruptcy Court, Whitebirch, Carlton Financial and Associated Bank (subject to final approval by its participants) have indicated they will agree to be bound by its terms.

The following chart summarizes the classification scheme under the Plan, the voting rights of each class, their proposed treatment under the Plan and estimated distributions:

Class	Impaired/ Unimpaired	Voting Rights	Treatment Under Plan	Estimated Amount or Value of Claims¹	Estimated Percentage of Recovery

¹ Amounts shown are estimates only and remain subject to the claims' reconciliation/objection process and claims filed under future bar dates.

Administrative Claims and Unclassified Priority Claims – Unclassified	Unimpaired	Not entitled to vote	Paid in full from Plan Fund.	\$82,000	100%
United States Trustee Fees – Unclassified	Unimpaired	Not entitled to vote	Paid in full from Plan Fund.	\$7,000	100%
Class 1 –Other Priority Claims	Unimpaired	Not entitled to vote	Paid in full from Plan Fund	\$0.00 ²	100%
Class 2 – Secured Claim of Crow Wing County, MN	Unimpaired	Not entitled to vote	Paid in full by Purchaser.	\$457,749.84 ³	100%
Class 3 – Secured Claim of Associated Bank	Impaired	Entitled to vote	Paid \$3,400,000 from the proceeds of the sale of the Conveyed Property pursuant to the Purchase Agreement; receives all Cash Collateral and 50% of collected and unpaid rents through the Effective Date, less amounts necessary to fund the Plan Fund (Debtor estimates the net amount to be approximately \$510,000).	\$4,915,711.62	80%
Class 4 – Claim of Carlton Financial	Impaired	Entitled to vote	Paid \$337,500 by separate purchase agreement with the Purchaser; receives an Allowed Administrative Claim in the	\$479,862.51 ⁴	74%, from amount paid by the Purchaser plus the Allowed Administrative Claim;

² See Article VI, section D of this Disclosure Statement.

³ Through July 31, 2004. Interest and penalties continue to accrue.

⁴ Carlton asserts this is the amount of its claims as of July 14, 2004. The Debtor has not been able to confirm the amount of the claims and reserves the right to object to the amount.

			amount of \$18,297.19 and an Unsecured Deficiency Claim which Carlton Financial asserts will be \$124,065.32 less any amounts paid to Carlton Financial by the Purchaser in excess of \$337,500.		plus 3.4% of the Allowed Unsecured Claim
Class 5 – General Unsecured Claims	Impaired	Entitled to vote	Each holder will receive a pro-rata share of funds remaining in the Plan Fund after payment of the Allowed Administrative Claims, Unclassified Priority Claims, U.S. Trustee fees and Class 1 claims. Debtor estimates that \$100,000 will be available for distribution to holders of Allowed Unsecured Claims	\$2,964,000 ⁵ (exclusive of Associated Bank's Deficiency Claim of approximately \$1,006,000; Associated Bank will waive the right to receive a distribution on account of its Deficiency Claim)	3.4%
Class 6 - Equity Interests	Impaired	Not entitled to vote	Cancelled without distribution.	N/A	0%

A more detailed description of the specific classification, treatment, voting rights and projected distribution to be accorded to claimants is set forth in Article IV of this Disclosure Statement. For a complete description of the treatment of all claims and interests, Creditors and holders of Equity Interests should review the Plan.

⁵ Based on Debtor's review of scheduled and filed claims. Debtor reserves the right to object to these claims.

II. VOTING PROCEDURES & REQUIREMENTS

A. Vote Required For A Class To Accept The Plan

The Bankruptcy Code provides that a plan is accepted by a class of claims if holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the claims of such class who actually vote on the plan cast ballots to accept the plan. A plan is accepted by an impaired class of interests if holders of at least two-thirds (2/3) of the number of dollars in such class who actually vote on the plan vote to accept the plan. Only those holders of claims or interests who actually vote are counted in these tabulations.

B. Ballots And Voting

After carefully reviewing this Disclosure Statement, along with the attached exhibits, the Debtor encourages you to vote by indicating your acceptance of the Plan on the enclosed ballot.

It is important that Creditors exercise their right to vote to accept or reject the Plan. Even if you do not vote to accept the Plan, you may be bound by the Plan if the requisite holders of claims accept it. The amount and number of votes required for confirmation of the Plan are computed on the basis of the total amount of claims or interests actually voting for or against the Plan.

C. Parties Entitled To Vote

To be entitled to vote on the Plan, a Creditor must have an Allowed Claim that is also impaired under the Plan.

1. Only Allowed Claims Entitled to Vote

Pursuant to section 1126(a) of the Bankruptcy Code, only holders of allowed claims or interests are entitled to vote on the Plan. A claim or interest is automatically allowed if (i) a proof of claim or interest has been filed and no objections to the claim or interest have been asserted before any applicable objection deadline fixed by the Bankruptcy Court, or (ii) such claim or interest is listed on the Debtor's schedules and is not listed as contingent, unliquidated and/or disputed. If you are in any way uncertain whether or if your claim has been correctly scheduled, you should review the Debtor's schedules of assets and liabilities (the "Schedules"), which are on file with the United States Bankruptcy Court, Clerk's Office, located at 301 U.S. Courthouse, 300 South Fourth Street, Minneapolis, Minnesota, 55415.

If a proof of claim or interest has been filed and an objection to that claim or interest has been asserted and remains unresolved as of the date of the confirmation hearing, such claim or interest will not be deemed allowed as of such date. Therefore, the holder of such a disputed claim or interest will not be entitled to vote on the Plan unless (i) a portion of the claim or interest is not disputed, or (ii) the claim or interest has been temporarily allowed in an estimated amount for voting purposes. In the event that a portion of an otherwise disputed claim or interest is undisputed, or a claim or interest has been temporarily allowed in an estimated amount, the amount of such claim or interest for voting purposes shall be such undisputed or estimated

amount. Therefore, a holder of a claim or interest that is subject to a pending objection may receive a ballot in a lesser amount than the full amount set forth in such holder's proof of claim or interest.

If a holder of a claim or interest that is subject to a pending objection wishes to have its claim estimated and temporarily allowed for voting purposes, such holder must file a request with the Bankruptcy Court requesting such relief. Any allowance of a claim or interest for voting purposes shall not constitute an allowance of the claim or interest for purposes of receiving distributions under the Plan. Similarly, any allowance of a claim or interest for voting purposes shall not constitute an admission by the Proponent of the existence, nature, extent or allowability of any claim or interest.

2. Only Impaired Claims Entitled to Vote

Pursuant to section 1126(f) of the Bankruptcy Code, any class that is not impaired under the Plan, and each holder of a claim of interest in such class, is automatically deemed to have accepted the Plan. Therefore, only impaired claims will vote on the Plan, except classes for which no compensation or payment is provided for under the Plan. Impaired classes not receiving compensation under the Plan are deemed not to have accepted the Plan, and therefore, such classes do not vote. Section 1124 of the Bankruptcy Code provides that a class of claims or interests is impaired under a plan unless the plan: (i) leaves unaltered the legal, equitable and contractual rights to which such claim or interest entitles the holder, or (ii) cures all defaults, reinstates the original maturity of the claim or interest, and otherwise leaves unaltered the legal, equitable and contractual rights to which such claim or interest entitles the holder.

Classes 1 and 2 are not impaired under the Plan. Classes 1 and 2 are deemed to accept the Plan and are not entitled to vote. Classes 3, 4 and 5 are impaired under the Plan. Therefore, each holder of an Allowed Claim in such impaired classes will receive a ballot and is entitled to vote on the Plan. Class 6 members, holders of Equity Interests, will receive nothing under the Plan, and thus, Class 6 is deemed to have rejected the Plan and will not vote on the Plan.

3. Voting Procedures for Representatives

If the ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, corporate officer, or another acting in a fiduciary or representative capacity, such persons should indicate such capacity when signing and, unless otherwise determined by the Debtor, must submit proper evidence to the Debtor of their authority to so act.

IF YOU HAVE A CLAIM THAT IS IMPAIRED UNDER THE PLAN AND YOU ARE ENTITLED TO VOTE, BUT DID NOT RECEIVE A BALLOT, RECEIVED A DAMAGED BALLOT OR LOST YOUR BALLOT, OR IF YOU HAVE ANY QUESTIONS CONCERNING THE DISCLOSURE STATEMENT OR THE PLAN, PLEASE CONTACT STEVEN B. NOSEK AT 701 FOURTH AVENUE SOUTH, SUITE 300, MINNEAPOLIS, MINNESOTA 55415.

III. DESCRIPTION OF DEBTOR'S BUSINESS AND OPERATIONS

A. Nature And History Of The Debtor's Business

The Debtor owns and operates a 120-room limited service resort hotel located in Breezy Point Resort, Breezy Point, Minnesota. The hotel is known as Breezy Point Inn & Suites Lodge ("BP Inn").

In 1998, Breezy Point Development, Inc. ("BP Development"), a corporation owned equally by David Weber and Robert Cline, entered into a joint venture agreement with Whitebirch, the owner of the adjacent Breezy Point Resort, for the purposes of developing the BP Inn. Whitebirch contributed \$1,000,000.00 in initial capital to the Debtor, and received a 40% interest in the Debtor. BP Development received a 60% ownership interest in the Debtor and contributed development services. Subsequently, BP development sold its interests in the Debtor, and the membership interests in the Debtor are now owned 40% by Whitebirch, 14.3% by Robert Cline, 14.3% by David Weber and 31.40% by various other persons.

The BP Inn was constructed during 1999 and 2000, and it commenced operations in July 2000. The total development cost of the BP Inn, including the units and the land, was approximately \$9.2 million, funded as follows:

- Mortgage Loan - \$5,000,000 – J.G. Kinnard Co., an investment-banking firm, obtained commitments for a \$5,000,000 first mortgage construction and a term loan. Park National Bank ("Park"). The construction loan had an interest rate of 1.50% over the prime interest rate. The construction loan matured December 31, 2000. Associated Bank is the successor in interest to Park.

The construction loan converted to a term loan on January 1, 2001, due in five years, with a 20-year amortization schedule. The interest rate on the permanent loan is 325 basis points over the ten year Treasury note rate. The interest rate at the date of closing on the term loan was 8% plus a ¼% loan-servicing fee. The monthly payments of principal and interest were approximately \$43,000 on the Petition Date. Associated Bank has sold participation interests in the loan to various other banks, but remains the servicer and lead bank on the loan.

- Second Mortgage Loan - \$200,000 – The \$200,000 Economic Development Loan, obtained from Great River Energy ("Great River"), is subordinate to the first mortgage held by Associated Bank, with interest of 7.5%, amortized over twenty years, and due in ten years. Interest only was payable for the first six months of the loan. The monthly payments were approximately \$1,611 on the Petition Date. Crow Wing Power is the successor in interest to Great River.
- Lease for Furniture, Fixtures and Equipment - \$862,750 – The Carlton Financial Lease is either a true lease of the Carlton Equipment or a financing secured by a security interest in the Carlton Equipment. Associated Bank's interest in the Carlton Equipment is subordinate to any interest of Carlton Financial pursuant to an "Intercreditor Agreement" dated February 17, 2000. The Carlton Financial Lease has

an 11.45% interest rate, amortizing over five years, with monthly payments, including sales taxes, of approximately \$18,300, with a 15% residual of \$129,450. This residual is payable during the sixth year.

- The Tax Increment Notes of \$1,117,200 (“Tax Increment Notes”), with interest at 9%, are repayable in semi-annual principal and interest payments of \$92,500, commencing in 2002. Capitalized interest payments and other issuance costs aggregated approximately \$280,000.

The Tax Increment Notes were to be repaid from and are secured by a pledge of certain tax increments to be received by the issuer, Breezy Point Economic Development Authority, which were anticipated to be sufficient to pay, when due, the principal and interest on the Tax Increment Notes. However, due to changes in the tax increment financing laws, the real estate taxes payable by the Debtor are no longer sufficient to pay the Tax Increment Notes in full.

- Equity Investment of \$2,000,000, consisting of \$1,000,000 for property (cabana units) contributed by Whitebitch, and \$1,000,000 in cash.

Whitebitch provides management services for the BP Inn pursuant to a management agreement dated October 1, 1999, entered into by and between the Debtor and Whitebitch (the “Management Agreement”). Under the Management Agreement, Whitebitch receives a management fee equal to 50% of the gross hotel revenues.

B. Events Leading To Chapter 11 Case

Since its inception, the BP Inn has reported operating losses. The Debtor’s principals believe that this is due to failure to achieve projected occupancy levels attributable to: (i) the general downturn in the economy; (ii) the lack of snow in the Brainerd, Minnesota area for the past three years; (iii) the failure to include a swimming pool in the project; and (iv) the significant adverse change in the tax increment laws in the State of Minnesota. Because of its start-up nature, the Debtor anticipated that losses would be incurred for the years 2000 and 2001. However, the Debtor did not expect losses to the extent realized. BP Inn’s occupancy percentage, average daily room rate (“ADR”), room revenue and net losses since opening in July 2000, through May 31, 2004, are as follows:

Year	Occupancy %	ADR	Room Revenue	Net Loss
2000	34%	\$95.31	\$598,000	(\$368,000)
2001	35%	\$100.49	\$1,528,000	(\$690,000)
2002	33%	\$102.06	\$1,489,000	(\$625,000)
2003	32%	\$100.11	\$1,403,000	(\$812,000)
2004 through 6/30/04	26%	\$89.66	\$509,000	(\$459,000)

The projected losses for the remainder of 2004 and future years are significant. In 2002, the Debtor projected that, based upon the current debt structure and operations, the occupancy

rates and room revenues for 2003 and future years would not increase over current levels, and that operating losses would continue unless the Debtor could restructure or refinance its debt. The Debtor attempted to negotiate a restructuring and attempted to obtain a refinancing of the debt structure, but neither was successful. In addition, a change to Minnesota's Tax Increment Financing law in 2001 resulted in an unexpected annual cash flow shortage of \$101,000.

Due to the continuing lack of sufficient revenue, commencing in April, 2003, the Debtor failed to make its debt service payments to Associated Bank. At the time, these payments were \$42,971.01 per month. Thus, on July 11, 2003, Associated Bank commenced an action in Minnesota state court seeking the appointment of a temporary receiver for the BP Inn.

At a meeting held on or about August 1, 2003, a majority of the members of the Debtor determined that chapter 11 would provide the best course of action under the circumstances. The Debtor filed its petition under chapter 11 on August 1, 2003.

C. Operations And Events During Chapter 11 Case

Since the Petition Date, the Debtor has continued to operate the BP Inn. The Debtor has also made inquiries seeking to restructure or refinance its existing debt, but these efforts have not been successful. The Debtor has further sought to find a buyer for its assets. The Debtor's goal throughout the process has been to reduce expenses and maximize creditor returns. A summary of the Debtor's operations during this Case is attached to this Disclosure Statement as Exhibit A. The Debtor's balance sheet as of June 30, 2004 is attached as Exhibit B. The following events indicate the significant activities undertaken by the Debtor to fulfill these goals:

1. Retention of Counsel

The Debtor retained bankruptcy counsel to assist it in navigating through the chapter 11 process. The Debtor's application to employ Steven B. Nosek as its bankruptcy counsel was approved by order of the Bankruptcy Court on August 6, 2003.

2. Cash Collateral Stipulation

As noted above, Associated Bank issued the Debtor a \$5,000,000 promissory note, the repayment of which is secured by various security interests granted by Debtor to Associated Bank, including a first priority mortgage on substantially all of the Debtor's real and a security interest in substantially all of the Debtor's personal property. The Debtor's analysis of the liens and security interests asserted by Associated Bank revealed that such liens and interests were valid, enforceable and properly perfected.

On the Petition Date, the Debtor owed Associated Bank \$4,999,401.73. Promptly after the filing of the bankruptcy petition, the Debtor negotiated with Associated Bank for the use of Associated Bank's Cash Collateral. The first Stipulation for Use of Cash Collateral and Adequate Protection by and between the Debtor and Associated Bank was approved by the Bankruptcy Court on September 25, 2003. The adequate protection provided to Associated Bank under the Cash Collateral Stipulation included granting Associated Bank a superpriority claim and a post-petition lien and security interest in the Cash Collateral Account and all post-petition

assets, excluding avoidance actions under chapter 5 of the Bankruptcy Code. The parties subsequently submitted a First Amendment to Stipulation for Use of Cash Collateral and Adequate Protection, dated December 1, 2003, that was approved by order of the Bankruptcy Court entered on December 5, 2003.

Pursuant to the Cash Collateral Stipulation, Associated Bank applied \$83,690.11 of Cash Collateral to its Allowed Claim after the Petition Date. Accordingly, as of the date of this Plan, Associated Bank has an Allowed Claim of \$4,915,711.62. As of July 12, 2004, the Debtor had \$258,194.50 of Cash Collateral on deposit in an account at Associated Bank.

The Cash Collateral Stipulation, as amended, granted Debtor the use of Associated Bank's Cash Collateral through January 31, 2004. The Debtor's ability to use the Cash Collateral terminated on that date. Since that date, Associated Bank has consented to the use of its Cash Collateral, pursuant to the Debtor's requests, on a as-needed basis in order to maintain the Debtor's property and to allow the BP Inn to continue operating. Based upon the occurrence of an Event of Default,⁶ as defined in the Cash Collateral Stipulation, pursuant to the terms of the Cash Collateral Stipulation, the Debtor consented to entry of an order terminating the automatic stay five days after the filing of an affidavit by Associated Bank stating the nature of the default. Associated Bank has refrained from filing such an affidavit while allowing the Debtor additional time to find a buyer for the Conveyed Property.

3. Efforts to Find a Buyer for the Conveyed Property

The Debtor has attempted to market the Conveyed Property to various potential buyers throughout the Debtor's bankruptcy proceeding. The Debtor has had discussions with the following potential buyers and brokers: BlueGreen, a group led by Al Keenan, several real estate brokers in the Crow Wing County, Minnesota area and Whitebirch. The Debtor has determined as a result of this process that it would be most beneficial to its bankruptcy estate if the highest and best sale could be negotiated with Whitebirch. This is because there are several restrictive covenants on the Conveyed Property in favor of Whitebirch that, if valid, would make it difficult for a purchaser other than Whitebirch to use the Conveyed Property as it may desire. Although the Debtor believes that it has good arguments regarding why the most onerous restrictive covenants would be invalidated under applicable Minnesota law, it would be an additional expense to the estate to litigate this issue and the outcome of such litigation is not certain.

With the consent and input of Associated Bank, the Debtor was able to negotiate a sale of the Conveyed Property to Whitebirch. Notwithstanding Debtor's efforts to market the Conveyed Property to other potential buyers, there have been no higher offers, and no better offers, received by the Debtor at the time of this Disclosure Statement.⁷

⁶ The Cash Collateral Stipulation provides, in paragraph 8(h) thereto, that an Event of Default would occur if the Debtor failed to enter into a binding agreement to sell the property that is subject to Associated Bank's liens, or file and obtain approvals of a disclosure statement and plan, by certain dates. The Debtor was unable to meet any of these dates.

⁷ As set forth in the Plan and in Articles I(B) and V(A) of this Disclosure Statement, a buyer other than Whitebirch, with a higher and better offer and providing other terms are met, could still be the Purchaser.

The Debtor filed a motion to approve the sale of the Conveyed Property to Whitebirch on May 21, 2004 (the "Motion"). At a hearing held on June 9, 2004, the Bankruptcy Court declined to approve the Motion and indicated that the Debtor could seek to consummate the sale through the chapter 11 plan and disclosure process, rather than through a sale motion brought under Bankruptcy Code section 363.

BlueGreen has informed the Debtor that it intends to submit a competing bid for the Conveyed Property. However, as of the date of this Disclosure Statement, the Debtor has not received any binding offers from BlueGreen or any other documents that would require BlueGreen to make a competing bid.

4. Motion of Carlton Financial for Administrative Expense Allowance

Carlton Financial filed a "Motion for Payment of Lease Pursuant to 11 U.S.C. § 365(d)(10)." On June 16, 2004, the Bankruptcy Court entered an Order which authorized and directed the Debtor to make payments of \$18,297.19 per month, retroactively commencing on February 1, 2004, to Carlton Financial. The Bankruptcy Court further ordered that if the Debtor was unable to make the required payments, Carlton Financial would have an Allowed Administrative Claim for the unpaid amounts. As of the date of this Disclosure Statement, Carlton Financial has an Allowed Administrative Claim in the amount of \$109,783.14. The Debtor estimates that Carlton Financial will have an Allowed Administrative Claim as of the Effective Date in the amount of \$146,377.52.

5. Insurance Premium Financing

The Debtor's property was insured through June 27, 2004. The Debtor's former insurer issued a notice of non-renewal, but agreed to extend coverage through July 17, 2004, to allow the Debtor time to find a new insurer. It is critical that the Debtor's assets be insured against loss and damage. EMC Insurance Companies agreed to provide the Debtor with the necessary insurance coverage, but only if the Debtor paid the entire premium, \$47,224.86, for the term year in advance. The Debtor did not have the funds to pay this premium and therefore sought financing.

On July 2, 2004, the Debtor brought a motion (the "Financing Motion"), on an expedited basis, seeking to approve a financing agreement (the "Financing Agreement") with First Insurance Funding Corporation. Under the terms of the Financing Agreement, the Debtor is required to make a down payment in the amount of \$10,609.66, and nine monthly payments in the amount of \$4,177.78 each, commencing on July 27, 2004. The Financing Agreement further provides that First Insurance Funding Corp. has a security interest in return premiums, dividend payments and certain loss payments. The Bankruptcy Court approved the Financing Motion by Order entered on July 8, 2004.

The Debtor requested that Associated Bank consent to the use of Cash Collateral in order to make the payments required under the Financing Agreement, including the initial down payment. Associated Bank consented to such use of its Cash Collateral subject to the conditions that: (i) the Insurance Policy will be cancelled upon the closing of the sale of Debtor's Conveyed

Property; and (ii) any excess unearned premium received by the Debtor from the insurer upon cancellation of the Insurance Policy will be turned over to Associated Bank after the payment of any amounts necessary to pay any remaining balance due and owing under the Financing Agreement.

IV. THE PLAN

The following summary is a brief overview of certain principal provisions of the Plan. This overview is qualified in its entirety by reference to the Plan and the form of any Exhibits to the Plan. Any conflict between this overview and the Plan will be resolved by the terms and provisions contained in the Plan. **ALL CREDITORS AND HOLDERS OF INTERESTS ARE URGED TO REVIEW THE PLAN CAREFULLY.**

A. Treatment Of Unclassified Claims

As provided in section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Unclassified Priority Claims are not classified for purposes of voting or receiving distributions under the Plan. Rather, all such claims are unclassified claims and receive the treatment specified by the Bankruptcy Code.

1. Administrative and Unclassified Priority Claims

Administrative Claims are claims allowable under section 503(b) of the Bankruptcy Code as costs or expenses of administering the estate of the Debtor created pursuant to section 541 of the Bankruptcy Code. Allowed Administrative Claims are entitled to priority treatment under section 507(a)(1) of the Bankruptcy Code. Administrative Claims include, without limitation, the costs and expenses of operating the Debtor's business after the commencement of the Case, all wages, salaries and commissions for services rendered after the commencement of the Case, and all claims of Professionals employed in the Case pursuant to sections 327 or 1103 of the Bankruptcy Code.

Unclassified Priority Claims are unsecured claims allowable under sections 502(f) of the Bankruptcy Code entitled to priority treatment under section 507(a)(2) of the Bankruptcy Code and certain unsecured claims entitled to priority treatment under section 507(a)(8) of the Bankruptcy Code. Unclassified Priority Claims include, without limitation, certain claims arising in an involuntary bankruptcy case and certain claims of governmental units related to unpaid taxes.

Unless the Debtor and the holder of such claim agree otherwise, all Allowed Administrative Claims and Allowed Unclassified Priority Claims against the Debtor shall be paid in full, in cash, on or as soon as practicable after the later of: (a) the Effective Date; or (b) the date that any such Administrative Claim or Unclassified Priority Claim becomes an Allowed Administrative Claim or an Allowed Unclassified Priority Claim. Payment of Allowed Administrative Claims and Allowed Unclassified Priority Claims will be made from the Plan Fund. The Debtor estimates that Allowed Administrative Claims to be paid from the Plan Fund will be approximately \$82,000. Based on the Debtor's review of its schedules and filed proofs of claim, the Debtor estimates that the total amount of Allowed Unclassified Priority Claims is

\$0.00. Based upon the estimated amount of Allowed Administrative Claims and Allowed Unclassified Priority Claims and the amount of the Plan Fund, the Debtor believes that there will be sufficient funds to pay the Allowed Administrative Claims and Allowed Unclassified Priority Claims in full.

2. United States Trustee Fees

On or before the Effective Date, the Debtor shall pay to the United States Trustee the appropriate sum required by 28 U.S.C. § 1930(a)(6). The Debtor shall timely pay to the United States Trustee any and all post-confirmation quarterly fees as required by 28 U.S.C. § 1930(a)(6) until such time as the Case is converted, dismissed or closed by the Bankruptcy Court. Payment of Allowed fees payable to the United States Trustee will be made from the Plan Fund. After consultation with the U.S. Trustee, the Debtor estimates that U.S. Trustee fees to be paid from the Plan Fund will be approximately \$7,000. Based upon the estimated amount of the United States Trustee Fees and the amount of the Plan Fund, the Debtor believes that there will be sufficient funds to pay the United States Trustee Fees in full. The United States Trustee shall be exempt from any provision in the Plan which may require the filing of a proof of claim by the United States Trustee as a condition precedent to receiving payment for any quarterly fees due pursuant to 28 U.S.C. § 1930(a)(6).

B. Classification And Treatment Of Classified Claims And Interests

1. Class 1 – Other Priority Claims

Unless the Debtor and the holder of such claim agree otherwise, all Allowed Other Priority Claims shall be paid in full, in Cash, from the Plan Fund on or as soon as practicable after the later of: (a) the Effective Date; and (b) the date that any such Other Priority Claim becomes an Allowed Other Priority Claim. Class 1 is unimpaired and holders of such claims are not entitled to vote to accept or reject the Plan. Based on the Debtor's review of its schedules and filed proofs of claim, the Debtor estimates that the total amount of Class 1 claims is \$0.00.⁸

2. Class 2 – Secured Claim of Crow Wing County, Minnesota

Class 2 shall consist of the Allowed Secured Claims of Crow Wing County, Minnesota against the Debtor. As of July 31, 2004, Crow Wing County will have an Allowed Secured Claim of \$457,749.84, including accrued and unpaid interest and penalties for unpaid real estate taxes. Interest and penalties will continue to accrue through the Effective Date. Crow Wing County holds valid real estate tax liens on the Debtor's real property.

Pursuant to the terms of the Purchase Agreement, the Purchaser will acquire the Conveyed Property subject to the real estate tax liens and will pay Crow Wing County in full on the Effective Date all amounts owed to Crow Wing County as of the Effective Date. Class 2 is unimpaired and Crow Wing County is not entitled to vote to accept or reject the Plan.

⁸ As set forth in Article VI, section D of this Disclosure Statement, four parties who invested in the Debtor filed proofs of claim asserting that they are entitled to priority status. The Debtor does not believe that the claims are valid Priority Claims. The Debtor intends to object to these proofs of claim.

3. Class 3 – Secured Claim of Associated Bank

Class 3 shall consist of the Secured Claims of Associated Bank against the Debtor. As of the Petition Date, Associated Bank had an Allowed Claim of \$4,767,951.10 in principal, plus accrued and unpaid interest in the amount of \$167,295.19, plus late fees and out-of-pocket costs and expenses, including attorneys' fees, in the amount of \$64,155.44, for a total Allowed Claim of \$4,999,401.73. Pursuant to the Cash Collateral Stipulation, Associated Bank applied \$83,690.11 of Cash Collateral to its Allowed Claim after the Petition Date. Accordingly, as of the date of the Plan, Associated Bank had an Allowed Claim of \$4,915,711.62. Associated Bank holds valid and perfected liens and security interests in substantially all of the Debtor's real and personal property. Associated Bank's Allowed Claim is an Allowed Secured Claim to the extent of the value of the collateral securing payment of the Claim and is an Allowed Deficiency Claim to the extent the amount of the Claim exceeds the value of the collateral securing the Claim.

In full satisfaction of its Allowed Secured Claim (as calculated pursuant to section 506 of the Bankruptcy Code), Associated Bank shall receive or retain: (a) all cash proceeds from the sale of the Conveyed Property pursuant to the Purchase Agreement, which amount shall be not less than \$3,400,000; (b) all Cash Collateral held or received by the Debtor as of the Effective Date, less any cash necessary to fund the Plan Fund; (c) fifty percent (50%) of the "Gross Revenues" as defined in the Management Agreement, which are earned but not yet deposited in the Cash Collateral Account on the Effective Date; and (d) any excess unearned premium received by the Debtor upon cancellation of the Insurance Policy. Any cash payable under part (a) or (b) of the preceding sentence on account of Associated Bank's Allowed Secured Claim shall be paid in full, in Cash, on the Effective Date. In no event shall the amounts to be received by Associated Bank exceed its Allowed Claim. In consideration of the treatment provided herein and the release granted in Article VI, Section F, Associated Bank has agreed to fund the Plan Fund from its Cash Collateral and waive any right to receive a distribution under the Plan on account of any Deficiency Claim it may have on the Effective Date; provided, however, such waiver shall not affect its right to pursue any claims it may have against any person other than the Debtor. The Debtor will cancel the Insurance Policy effective as of the Effective Date.

Debtor estimates that Associated Bank will receive a total of \$3,910,000 to be applied to its Allowed Secured Claim and that Associated Bank would have a Deficiency Claim in the approximate amount of \$1,006,000.

In consideration for Associated Bank's agreement to fund the Plan Fund and waive its Deficiency Claim, the Debtor will, upon the Effective Date of the Plan, be deemed to absolutely and unconditionally release and forever discharge Associated Bank, and any and all participants, predecessors, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns, as well as all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which it has had, now has or may have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time, to and including the Effective Date, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

Class 3 is impaired and Associated Bank is entitled to vote to accept or reject the Plan.

4. Class 4 – Claim of Carlton Financial

Class 4 shall consist of the claims of Carlton Financial against the Debtor. As of July 14, 2004, Carlton Financial asserts it has a Claim in the amount of \$479,862.51. Carlton Financial has leased the Carlton Equipment to the Debtor pursuant to the terms of the Carlton Financial Lease. In the event that that Carlton Financial Lease is recharacterized as a secured financing, Carlton Financial asserts that the debt owing under the Carlton Financial Lease is secured by a valid security interest in the Carlton Equipment. The Debtor neither disputes nor agrees with the assertion that Carlton Financial has a Secured Claim. The Carlton Equipment and the Conveyed Property represent all or substantially all of the property necessary to operate the Debtor's business. Regardless of whether the Carlton Financial Lease is a true lease or a secured financing, Carlton Financial's interest in the Carlton Equipment is senior to all other interests in such equipment.

Whitebitch and Carlton Financial will enter into the Carlton Financial Purchase Agreement. In consideration of the Carlton Financial Agreement, Carlton Financial shall be deemed to consent to the following treatment:

- (i) The Debtor will reject the Carlton Financial Lease effective as of the Effective Date;
- (ii) Carlton Financial shall waive any Allowed Administrative Claim it holds in excess of \$18,297.19; and
- (iii) Based on the rejection of the Carlton Financial Lease, Carlton Financial shall be allowed to assert a Deficiency Claim in the amount of its Allowed Claim less any amount it receives under the Carlton Financial Purchase Agreement less \$18,297.19.

In the event that the Conveyed Property is sold to any person other than Whitebitch, Carlton Financial has agreed that it will sell its interest in the Carlton Equipment to such person on the same or substantially similar terms, provided the purchase price is at least \$337,500.

Class 4 is impaired and Carlton Financial is entitled to vote to accept or reject the Plan.

5. Class 5 – General Unsecured Claims

Class 5 shall consist of all Unsecured Claims against the Debtor, including any Deficiency Claim, not otherwise classified in the Plan. Based on the Debtor's review of its schedules and filed proofs of claim, the Debtor estimates that the total amount of Class 5 claims is \$2,964,000⁹ exclusive of Associated Bank's Deficiency Claim of approximately \$1,006,000. Associated Bank will waive the right to receive a distribution on account of its Deficiency Claim.

⁹ Based on Debtor's review of scheduled and filed claims. Debtor reserves the right to object to these claims.

Class 5 Unsecured Creditors, in full satisfaction of their Allowed Unsecured Claims, shall receive pro rata distributions of any funds available for distribution from the Plan Fund or the liquidation of any assets of the Debtor other than the Conveyed Property, after payment of all Allowed Administrative Claims, Unclassified Priority Claims, Other Priority Claims, U.S. Trustee fees and post-confirmation costs and expenses incurred by the Debtor as a result of administering the terms and provisions of the Plan. The Debtor estimates that approximately \$100,000 shall be available for distribution to Unsecured Creditors and that holders of Allowed Unsecured Claims will receive a 3.4% distribution on their Allowed Claims. Class 5 is impaired and holders of such claims are entitled to vote to accept or reject the Plan.

6. Class 6 – Equity Interests

Class 6 shall consist of all Equity Interests in the Debtor. On the Effective Date, all outstanding Equity Interests of the Debtor will be canceled, annulled, and extinguished, and the holders of the Equity Interests shall receive nothing on account of such Equity Interests. Therefore, holders of Equity Interests are deemed to have rejected the Plan and they are not entitled to vote to accept or reject the Plan.

V. IMPLEMENTATION OF THE PLAN

A. Sale Of Debtor's Assets

The Plan will be implemented through a sale of the Conveyed Property in accordance with the Purchase Agreement and a sale of the Carlton Equipment in accordance with the Carlton Financial Purchase Agreement. Under the Plan, any entity may make a higher and better offer for the Conveyed Property prior to the Confirmation Hearing on terms similar to those set forth in the Whitebirch Purchase Agreement. Any competing offer must be made according to the Bid Procedures set forth in Exhibit 2 to the Plan. In the event that the Debtor receives a competing bid, the Debtor shall file the results of the Bid Procedures with the Bankruptcy Court not later than 24 hours before the Confirmation Hearing and request that the Bankruptcy Court approve the winning bidder as the Purchaser under the Plan. Pursuant to Section 1123(a)(5) of the Bankruptcy Code, the Purchaser shall acquire the Conveyed Property free and clear of all liens, claims, or encumbrances held by Associated Bank, Carlton Financial, Crow Wing Power, Brian Tollefson (d/b/a Pro Scape), Eric Binstock (d/b/a Siteworks Unlimited), or Jim's Electric Company, Inc. The Purchaser will take the Conveyed Property subject to the real estate tax liens payable to Crow Wing Property and the recorded interests of Robert Bruns, Linda Hallman, Jean Osmund and Jonathan Schluck. The Purchaser will be responsible for paying the real estate taxes.

Proceeds of the sale will be turned over to Associated Bank on the Effective Date of the Plan. In addition, all amounts owed to the Debtor by Whitebirch under the Management Agreement through the Effective Date and not previously delivered to the Debtor will be delivered to Associated Bank on the Effective Date.

B. Funding Of The Plan Fund

On the Effective Date, Associated Bank shall release from the Cash Collateral Account \$200,000 less any Cash Collateral used by the Debtor from July 1, 2004 through the Effective Date for purposes of funding the Plan Fund. Such amount shall be free and clear of any liens, claims or encumbrances of any Secured or Unsecured Creditor or any Administrative or Priority Claimants. The Plan Fund shall be used to pay holders of Allowed Administrative Claims, Unclassified Prior Claims and Other Priority Claims, U.S. Trustee Fees and post-confirmation costs of administering the Plan, and the remaining proceeds shall be paid to the holders of Allowed Unsecured Claims on a pro-rata basis.

C. Dissolution Of The Debtor

The Debtor's corporate existence shall be deemed terminated one hundred eighty (180) after the Effective Date of the Plan, unless such date is extended by order of the Bankruptcy Court.

D. Conditions Precedent To Consummation Of The Plan

Unless the Proponent elects to waive such condition, the following shall be conditions precedent to consummation of the Plan:

- (i) The Bankruptcy Court shall have entered a Final Order confirming the Plan in a form acceptable to the Proponent;
- (ii) The Purchaser shall purchase the Conveyed Property in accordance with the terms of the Purchase Agreement; and
- (iii) The Purchaser and Carlton Financial shall have entered into the Carlton Financial Purchase Agreement on or before the Effective Date of the Plan.

VI. CLAIMS AND DISTRIBUTIONS

A. Disputed Claims

Prior to making any distributions under the Plan, the Debtor shall establish a reserve account for Disputed Claims (the "Disputed Claims Reserve"). The Debtor shall distribute to and maintain in the Disputed Claims Reserve all Cash which would otherwise be distributable to holders of Disputed Claims, assuming such Disputed Claims would be allowed in the amount claimed. In calculating the amount of the reserve, the Debtor shall use one of the following as the amount of the Disputed Claim: (a) the amount such Creditor alleges is due and owing; (b) the amount ordered by the Bankruptcy Court for purposes of establishing a reserve; or (c) the amount that the Debtor and any such Creditor may mutually agree to reserve. The Cash reserved for the holder of a Disputed Claim shall be distributed to such holder only to the extent such Disputed Claim shall become an Allowed Claim. Any earnings on Cash in the reserve account shall be allocated to the account of the holder of Disputed Claims for which such Cash is held, and distributed to such holders based on the amount of their respective Allowed Claims.

B. Unclaimed Cash Distributions

If any check paid on account of a distribution from the Plan Fund shall not be presented for payment within the earlier of (i) ninety (90) days of the date it is mailed to a Creditor or (ii) one hundred twenty days (120) after the Effective Date of the Plan, and the check has not been returned to the Debtor by the United States Postal Service, the check shall be voided. In such an event, and if the Creditor fails to contact the Debtor within one hundred twenty (120) days after the Effective Date, the distribution will be deemed to be waived or abandoned and the funds payable to such Creditor will be turned over to Associated Bank.

In the event that a check is returned by the United States Postal Service on account of an incorrect or insufficient address, the Debtor will use reasonable means, in view of the amount of the dividend, to determine the correct address and remail the check. If the correct address cannot be determined or if the second mailing of a check is returned, then the Creditor will be deemed to have waived or abandoned its claim and the funds payable to such Creditor will be turned over to Associated Bank.

C. Rounding

Whenever any payment of a fraction of a cent would otherwise be called for, the actual payment shall reflect a rounding down of such fraction to the nearest whole cent. To the extent Cash remains undistributed as a result of the rounding down of such fraction to the nearest whole cent, such Cash shall be treated as unclaimed property and returned to Associated Bank.

D. Objections To Claims

The Debtor shall review all claims filed in this Case and file any objections to such claims as it deems appropriate, including, but not limited to any filed Unclassified Priority Claims, Other Priority Claims, Administrative Claims or Unsecured Claims. An objection to the allowance of a claim or interest shall be in writing and must be filed with the Bankruptcy Court within ninety (90) days after entry of the Confirmation Order. Any objection to a claim must be served on the Debtor and other parties in interest as provided under the Bankruptcy Rules and Local Rules. Nothing in the Plan shall be construed from prohibiting any other party in interest from filing objections to claims.

Four parties who invested in the Debtor filed proofs of claim asserting that they are entitled to unspecified Priority Claim status. These claims include: David & Kathie D. Kennedy in the amount of \$63,333; Kenneth H. & Joanne K. Kostka in the amount of \$62,916; Jonathan C. & Bonnie J. Moren in the amount of \$63,092; and Rogene J. & Kathleen M. Bonneson in the amount of \$62,500. The Debtor intends to object to these claims. The Debtor has not completed its review of all claims filed in this Case and reserves the right to file other objections as set forth in the preceding paragraph.

VII. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

Except as expressly assumed or rejected prior to the Effective Date pursuant to an order of the Bankruptcy Court, all executory contracts and unexpired leases of the Debtor shall be deemed rejected on the Effective Date. A claim for rejection damages must be filed no later than thirty (30) days after the Effective Date of the Plan.

VIII. ADDITIONAL GENERAL PROVISIONS OF THE PLAN

A. Legal Effects Of The Plan

Except as provided in the Plan and the Confirmation Order, all interests in the Debtor shall be deemed canceled on the Effective Date. Except as provided in the Plan, all holders of claims shall be precluded from asserting against the Debtor or its assets any further claim based on any act or omission, transaction or activity, of any kind or nature that occurred before the Confirmation Date. Nothing in the Plan shall be construed to affect any right of setoff under section 553 of the Bankruptcy Code.

B. Amendment, Modification And Revocation Of The Plan

The Plan may be amended or modified in the manner prescribed in section 1127 of the Bankruptcy Code. To the extent required under section 1127, a holder of a Claim or Equity Interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, the Plan as modified, unless, within applicable time periods, such holder changes its previous acceptance or rejection.

The Proponent may revoke and/or withdraw the Plan at any time prior to the Confirmation Date. If the Plan is revoked and/or withdrawn, the Plan will be null and void. In that event, nothing contained in the Plan will (a) constitute a waiver or release of any claims by the Proponent or any other entity, (b) prejudice in any manner the rights of the Proponent or any other entity, or (c) constitute any omission by the Proponent or any other entity.

C. Termination Of Professionals

Except as otherwise expressly provided in the Plan, all Professionals shall be terminated as of the Effective Date and such Professionals shall not be entitled to compensation or reimbursement of expenses for any services rendered after the Effective Date, other than services rendered in and expenses incurred in connection with any applications for allowance of compensation and reimbursement of expenses relating to their retention in this Case.

D. Retention of Actions

On the Effective Date, except as otherwise provided in the Plan, all of the Debtor's rights, title, and interests in and to any Actions, including Bankruptcy Actions, shall be retained by the Debtor. The Debtor may investigate and file any Action that it determines is likely to result in a recovery greater than the estimated fees and expenses necessary to pursue such Action. At this time, the Debtor is unaware of any such Actions and does not intend to pursue, investigate or file

any such Actions, excluding any claims' objections, as set forth in Article VI of this Disclosure Statement to the extent such objections are deemed "Actions" within the meaning of the Plan.

IX. RETENTION OF JURISDICTION

A. Scope Of Jurisdiction

The Bankruptcy Court shall retain its jurisdiction over this Case under 28 U.S.C. §§ 157 and 1334 to:

1. Authorize or approve a sale of any or all assets of the Debtor;
2. Determine any and all objections to the allowance of claims or interests;
3. Determine any and all applications for allowance of fees and reimbursement of professionals' expenses under the Bankruptcy Code relating to services provided and expenses incurred;
4. Determine any and all motions, adversary proceedings, or contested matters brought before the Bankruptcy Court;
5. Determine any and all actions arising in or relating to title 11 of the United States Code after the Confirmation Date, including, but not limited to, all Actions of the Debtor;
6. Modify the Plan, or grant declaratory relief with regard to any defect, omission, or inconsistency in the Plan;
7. Take any action to enforce the Plan and issue such orders as may be necessary to implement, execute, and consummate the Plan or the Purchase Agreement;
8. Determine any dispute regarding implementation of the Plan; and
9. Determine such other matters as may arise in connection with the Plan or consummation of the Plan.

B. Concurrent With Other Courts

Nothing in the Plan or the Confirmation Order shall expand the jurisdiction of the Bankruptcy Court beyond that permitted by title 28 of the United States Code. In addition, nothing in the Plan or the Confirmation Order shall impair any right to a jury trial that any party in interest in this Case would have notwithstanding confirmation of the Plan.

X. INCOME TAX CONSEQUENCES OF THE PLAN

MANAGEMENT OF THE DEBTOR DOES NOT BELIEVE THAT THE PLAN WILL RESULT IN ANY TAXABLE EVENT CHARGEABLE AGAINST THE DEBTOR. HOWEVER, THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS AND EQUITY INTERESTS MAY VARY BASED ON THE UNIQUE CIRCUMSTANCES OF EACH HOLDER. NO RULINGS WILL BE SOUGHT FROM THE INTERNAL REVENUE SERVICE (“IRS”) WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN, AND NO OPINION OF COUNSEL HAS BEEN REQUESTED OR OBTAINED WITH RESPECT TO ANY SUCH ASPECTS. THERE CAN BE NO ASSURANCE THAT THE IRS WILL NOT CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES OF THE PLAN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

Withholding Taxes: Any federal or state withholding taxes or other amounts required to be withheld under any applicable law shall be deducted and withheld from any distribution under the terms of the Plan.

XI. ACCEPTANCE AND CONFIRMATION OF THE PLAN

The Bankruptcy Code requires that, in order to confirm the Plan, the Bankruptcy Court must make a series of findings concerning the Plan and the Proponent, including that (a) the Plan has classified claims and membership interests in a permissible manner, (b) the Plan complies with applicable provisions of the Bankruptcy Code, (c) the Proponent has complied with applicable provisions of the Bankruptcy Code, (d) the Proponent has proposed the Plan in good faith and not by any means forbidden by law, (e) the disclosure required by section 1125 of the Bankruptcy Code has been made, (f) the Plan has been accepted by the requisite votes of Creditors (except to the extent that cramdown is available under section 1129(b) of the Bankruptcy Code) (see Article XI, section A of this Disclosure Statement), (g) the Plan is feasible and confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor, (h) the Plan is in the “best interests” of all holders of claims or membership interests in an impaired class by providing to such holders on account of their claims or interests property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain in a chapter 7 liquidation, unless each holder of a claim or interest in such class has accepted the Plan, (i) all fees and expenses payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on confirmation, have been paid or the Plan provides for the payment of such fees on the Effective Date, and (j) the Plan provides for the continuation after the Effective Date of all retiree benefits, as defined in section 1114 of the Bankruptcy Code, at the level established at any time prior to confirmation pursuant to section 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code, for the duration of the period that the Debtor has obligated itself to provide such benefits.

The Debtor believes that the Plan satisfies all the requirements for confirmation.

A. Acceptance Or Cramdown

A plan is accepted by an impaired class of claims if holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of claims of that class voting on the plan vote to accept the plan. Only those holders of claims who actually vote count in these tabulations. For further information regarding voting on the Plan, see Article II of this Disclosure Statement.

The Bankruptcy Code contains provisions authorizing the confirmation of a plan even if it is not accepted by all impaired classes, as long as at least one impaired class of claims (without including any acceptance of the plan by any insider) has accepted it. These so-called “cramdown” provisions are set forth in section 1129(b) of the Bankruptcy Code. As indicated above, a plan may be confirmed under the cramdown provisions if, in addition to satisfying the other requirements of section 1129 of the Bankruptcy Code, it (a) is “fair and equitable” and (b) “does not discriminate unfairly” with respect to each class of claims or interests that is impaired under, and has not accepted, the plan. The “fair and equitable” standard, also known as the “absolute priority rule,” requires, among other things, that unless a dissenting unsecured class of claims or a class of interests receives full compensation for its allowed claims or allowed interests, no holder of claims or interests in any junior class may receive or retain any property on account of such claims. With respect to a dissenting class of secured claims, the “fair and equitable” standard requires, among other things, that holders either (a) retain their liens and receive deferred cash payments with a value as of the plan’s effective date equal to the value of their interest in property of the estate or (b) otherwise receive the indubitable equivalent of their secured claims. The “fair and equitable” standard has been interpreted to prohibit any class senior to a dissenting class from receiving under a plan more than one hundred percent (100%) of its allowed claims. The requirement that a plan not “discriminate unfairly” means, among other things, that a dissenting class must be treated substantially equally with respect to other classes of equal rank.

As previously noted, Classes 3, 4, 5 and 6 are impaired or deemed impaired under the Plan. The Proponent believes that the Plan satisfies the cramdown provisions of section 1129 of the Bankruptcy Code if Classes 3 and 4 vote to accept the Plan, since no payment will be made to a junior class of claims or interests before payment in full of each non-consenting senior class of claims. Even if Class 5 votes to reject the Plan, the Debtor will request confirmation of the Plan on that basis.

B. Best Interests Test

Notwithstanding acceptance of the Plan by each impaired class or satisfaction of the cramdown requirements, to confirm the Plan the Bankruptcy Court must determine that the Plan is in the best interests of each holder of a claim or interest in any such impaired class who has not voted to accept the Plan. Accordingly, if an impaired class does not unanimously accept the Plan, the best interests test requires that the Bankruptcy Court find that the Plan is in the best interests of each member of such impaired class. This “best interests test” is met if the Plan provides to each member of such impaired class a recovery on account of the class member’s claim or interest that has a value, as of the Effective Date, at least equal to the value of the

distribution that each such member would receive if the Debtor were liquidated under chapter 7 of the Bankruptcy Code on such date.

C. Liquidation Analysis (Liquidation Under Chapter 7)

To estimate what distributions the members of each impaired class of claims would receive if the Debtor were liquidated in a chapter 7 case, the Bankruptcy Court must first determine the aggregate dollar amount that would be available if the Case were converted to a chapter 7 case and the Debtor's assets were liquidated by a chapter 7 trustee ("Liquidation Value"). The Liquidation Value of the Debtor would consist of the net proceeds from the disposition of the Debtor's remaining assets, augmented by the Cash held by the Debtor.

In chapter 7 cases, a trustee would be elected or appointed to liquidate the Debtor's assets and distribute the proceeds from the sale of the Debtor's assets. The proceeds would be distributed to the respective holders of allowed claims against the Debtor in accordance with the strict priorities established under the Bankruptcy Code. Under chapter 7, a secured creditor whose claim is fully secured would be entitled to full payment, including interest, from the proceeds of the sale of its collateral. Unless its claim is nonrecourse, a secured creditor whose collateral is insufficient to pay its claim in full would be entitled to assert an unsecured claim for its deficiency. Administrative Claims under the Bankruptcy Code would be paid in full before any distribution to Creditors holding Priority Claims or Unsecured Claims. Claims entitled to priority under the Bankruptcy Code would be paid in full before any distribution to Unsecured Creditors. Funds, if any, remaining after payment of Secured Claims, Administrative Claims and Priority Claims would be distributed pro rata to Unsecured Creditors.

The Liquidation Value available to Creditors holding Unsecured Claims would be reduced by, among other things, (a) the Allowed Secured Claims, to the extent of the value of their collateral, (b) the costs, fees, and expenses of the liquidation, as well as other Administrative Claims of the Debtor's chapter 7 case, and (c) unpaid Administrative Claims in the Case. The costs of liquidation in a chapter 7 case would include the compensation of a trustee, as well as counsel and other Professionals retained by such trustee, asset disposition expenses, applicable taxes, litigation costs, Administrative Claims arising from the operation of the Debtor during the pendency of the chapter 7 case, and all unpaid Administrative Claims incurred by the Debtor during the chapter 11 Case that are allowed in the chapter 7 case. The liquidation itself would also trigger certain Administrative Claims. In addition, other substantial claims could be generated if the Debtor were liquidated in a chapter 7 case.

The Proponent believes that liquidation under chapter 7 would result in substantial diminution of the value of this estate due primarily to the additional administrative expenses involved in the appointment of a trustee and attorneys, accountants and other professionals to assist the trustee. Any Cash to be distributed to Creditors would be reduced by the trustee's statutory fees allowable under Bankruptcy Code section 326. Moreover, a chapter 7 liquidation would result in delay in payments being made to Creditors. The Bankruptcy Rules¹⁰ provide that conversion of chapter 11 cases to chapter 7 will trigger a new bar date for filing claims against the Debtor's bankruptcy estate, and that new bar date would be more than 90 days after the Case

¹⁰ Federal Rule of Bankruptcy Procedure 3002(c).

was converted to one under chapter 7. Further, it is possible that additional claims that were not asserted in the chapter 11 Case, or were untimely filed, could be filed if the Case converted to chapter 7.

Finally, the Proponent believes that if the Debtor was liquidated under chapter 7, there would be no monies available with which to pay Allowed Administrative, Priority or Unsecured Claims. Associated Bank holds a valid lien on or perfected security interest in substantially all of the Debtor's real and personal property. Associated Bank's Allowed Secured Claim is in excess of \$4.9 million. However, assuming that the Conveyed Property continues to be managed by Whitebitch under the Management Agreement, Debtor has been informed that the most recent appraised fair market value of the Conveyed Property (assuming an orderly liquidation) indicates a maximum value of \$3.8 million; assuming different management, the fair market value declines to as low as \$2.2 million. Under normal liquidation principles and based on Associated Bank's pre- and post-petition liens, with the possible exception of the liquidation of the Carlton Equipment, all proceeds of a chapter 7 liquidation would be subject to Associated Bank's superior liens and security interests and such proceeds would likely be paid to Associated Bank. Associated Bank's large Deficiency Claim would also not be waived in a chapter 7 liquidation. Moreover, there would be no Plan Fund created in a chapter 7 liquidation with which to provide any monies for the holders of Allowed Administrative, Priority or Unsecured Claims. A copy of the Proponent's chapter 7 liquidation analysis is attached to this Disclosure Statement as Exhibit C.

The liquidation analysis is based on a number of estimates and assumptions that are subject to significant uncertainties. Further, the Proponent has not retained professionals for the specific purpose of preparing or reviewing the liquidation analysis. Rather, the liquidation analysis represents the Proponent's best estimates in light of current information and assumptions. Such estimates and assumptions may change. While the Proponent believes that its estimates and assumptions are reasonable for the purpose of preparing a hypothetical chapter 7 liquidation analysis, there can be no assurance that such estimates and assumptions would be valid if the Debtor were, in fact, liquidated under chapter 7. The Proponent believes that a chapter 7 liquidation of the Debtor would result in a substantial diminution in the value to be realized by the holders of claims.

D. Financial Feasibility Test

In order to confirm the Plan, the Bankruptcy Code requires the Bankruptcy Court to find that confirmation of the Plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor. Therefore, the Bankruptcy Court must find that there is a reasonable likelihood that the Debtor will be able to meet its obligations under the Plan. The Proponent believes that the Plan meets this test because: a form of liquidation is proposed in the Plan; the Debtor will dissolve; no further financial reorganization of the Debtor will be possible; and, the Proponent is informed and believes that Whitebitch has the financing necessary to complete the proposed purchase of the Debtor's assets.

XII. ALTERNATIVES TO CONFIRMATION OF THE PLAN

The Debtor has evaluated different alternatives to the Plan, including the liquidation of the Debtor under chapter 7 of the Bankruptcy Code. After considering these alternatives, the Debtor has concluded that the Plan is the best alternative and will maximize recoveries by holders of claims. If the Plan is not confirmed because the requisite classes did not vote to accept the Plan, then it is likely that the Debtor will dismiss the Case or Associated Bank will seek relief from the automatic stay of section 362 of the Bankruptcy Code. Under either scenario, the Debtor anticipates that Associated Bank would foreclose on its interests.

XIII. CONCLUSION

The Debtor urges the holders of Claims against the Debtor to vote to accept the Plan.

Dated: August 19, 2004

BREEZY POINT, LLC

By: /e/ Robert F. Cline
Its: Treasurer

M1:1117358.07

EXHIBIT A

[Financial Summary of Post-Petition Operations]

AMENDED

BREEZY POINT LLC
Income Statement
8/1/03-6/30/04

EXHIBIT A - DISCLOSURE STATEMENT

Gross Room Revenues	\$ 1,151,696
Interest Income	102
<i>Total Revenue</i>	<i>\$ 1,151,798</i>
<i>Expenses:</i>	
Management Fee	575,844
Cable TV	11,946
Insurance Expense	33,884
Insurance-Life	4,128
Utilities-Electric	46,000
Utilities-Gas	11,700
Utilities-Water & Sewer	13,640
Miscellaneous Expenses	32
Amortization Expense	80,850
Bank Charges	467
Fire Inspection	1,395
Interest Expense	436,769
Interest- Tax Increment Financing	81,246
Legal & Accounting	450
Licenses & Permits	833
Real Estate taxes	243,000
Depreciation	304,700
Legal Chapter 11	109,088
Court Fees	8,500
Other Chapter 11 expenses	19,601
Loss-Lightning	4,295
 Total Expenses	 <u>1,988,368</u>
 Net Loss	 <u>(836,570)</u>

AMENDED

BREEZY POINT LLC

EXHIBIT A - DISCLOSURE STATEMENT

Cash Receipts & Cash Disbursements

8/1/2003-6/30/2004

Cash-7/31/03-Pine River State Bank \$ 49,840.95

Cash Receipts- 8/1/03-6/30/04

Whitebirch- Total Collections-Room Revenues 1,218,214.13

Less Deductions by Whitebirch:

Management Fees (609,107.07)

Utility- Gas (11,924.21)

Repairs (322.13)

Utility-Cable (5,850.05)

Fire Inspection (1,395.00)

Lightning Damage-Net of claim received \$644 (6,468.52)

Elevator maintenance (881.91)

Fees, Miscellaneous (427.00)

(636,375.89)

Net Cash Receipts-Whitebirch 581,838.24

Other Cash Receipts:

Close Associated Bank reserve account 24,605.07

Insurance Refund 644.00

Insurance Proceeds-Lightning Strike 1,486.52

Real Estate Taxes Refund 595.88

27,331.47

Total Cash Receipts 609,169.71

Cash Disbursements-

Philadelphia Insurance Company Property/liability Insurance 37,696.00

First Colony Life Insurance Co Life Insurance 2,002.00

Carlton Financial Corp FF & E Lease 109,783.14

City of Breezy Point Sewer charges 13,940.00

Wire Transfer fees fees 262.00

Crow Wing County 2002 Real estate taxes 160,581.29

Charter Communications Cable 8,181.90

Crow Wing Power Electric 33,540.99

US Trustee Fees 6,750.00

Thirty Lakes Permits 832.57

Miscellaneous Misc 712.84

Carlson, Lundquist Tax return services 450.00

Associated Bank Costs 83,690.11

Cash Disbursements- 458,422.84

Cash Balance-Associated Bank 6/30/04 200,587.82

EXHIBIT B

[Balance Sheet as of June 30, 2004]

Breezy Point L.L.C.
Balance Sheet
June 30, 2004

AMENDED
EXHIBIT B - DISCLOSURE
STATEMENT

ASSETS

Current Assets		
Cash in Bank- Associated Bank	\$	200,587.83
Due from Whitebirch-Operations		143,883.14
Indemnity-Universal Title		10,000.00
Prepaid Insurance		1.00
Total Current Assets		354,471.97
Property and Equipment		
Furniture Fixtures & Equipment		1,041,364.88
Building		5,923,532.00
Land		1,799,941.31
Land Improvements		143,041.00
Accum Depreciation - Building		<1,626,727.00>
Total Property and Equipment		7,281,152.19
Other Assets		
Tax Increment Financing Costs		86,549.21
Organization Costs		107,543.00
Loan closing fees & costs		276,376.72
Accumulated Amortization		<362,187.61>
Total Other Assets		108,281.32
Total Assets	\$	7,743,905.48

LIABILITIES AND CAPITAL

Current Liabilities		
Accounts Payable	\$	708,804.51
Accrued Expenses		6,058.78
Accrued Interest		767,858.41
Other Taxes Payable		377,819.53
Utilities Payable		24,476.02
Total Current Liabilities		1,885,017.25
Long-Term Liabilities		
Advance-BPLLC		375,549.53
Tax Increment Note Payable		1,031,204.00
Loan Payable-Great River Energ		194,369.35
Loan Payable-Carlton Financial		439,806.43
Loan Payable-Signal Bank		4,771,288.26
Total Long-Term Liabilities		6,812,217.57
Total Liabilities		8,697,234.82
Capital		
Retained Earnings		<494,362.37>
Net Income		<458,966.97>
Total Capital		<953,329.34>

Unaudited - For Management Purposes Only
Breezy Point L.L.C.
Balance Sheet
June 30, 2004

Total Liabilities & Capital \$ 7,743,905.48

EXHIBIT C
[Liquidation Analysis]

EXHIBIT C -- AMENDED DISCLOSURE STATEMENT**Breezy Point LLC****Summary of Liquidation Analysis**

		Liquidation Proceeds
Asset:		
Cash	\$ 200,587	(1)
Accounts Receivable-Whitebirch	143,883	(1)
Building, Furniture and Fixtures	2,850,000	(2)
Gross Proceeds from Liquidation	\$ 3,194,470	
Liquidation Costs		
Real Estate Sales Commission	(199,500)	(3)
Other Costs	(50,000)	(4)
Real Estate Taxes	(457,750)	(5)
Liquidation Proceeds Available for Creditors	\$ 2,487,220	
Secured Creditors		
Associated Bank	\$ 4,915,712	(6)
Carleton Financial	479,863	(6)
Subtotal	\$ 5,395,575	
Secured Creditor Recovery	46%	
Available For Unsecured Creditors	0	

Notes to Liquidation Analysis

- (1) Balances as of June 30, 2004. Cash balance reflects amount being held in Associated Bank Cash Collateral account, and accounts receivable reflect amounts due from Whitebirch for the previous month in accordance with the Management Agreement. Under a liquidation scenario, both amounts are assumed to have a 100% realization value.
- (2) The estimated value of the Property and Equipment under a liquidation is based upon an appraisal undertaken on behalf of Associated Bank in January 2004. The amount listed above does not distinguish between land, land improvements, buildings or equipment, but rather assumes that the hotel units and related equipment and furnishings are sold as an entire unit. The appraisal indicated that without the tax increment financing in place the range of values would be \$2.2 to \$3.8 million. The above analysis assumes that a liquidation sale would result in an additional reduction of 25% of the appraised value due to the nature and timing of a liquidation versus the appraised value assuming an orderly process. Accordingly, the analysis is based upon \$3.8 million less 25% to arrive at the \$2.85 million value.
- (3) It is estimated that to complete a sale of the property will require retaining a real estate broker and paying a 7% commission upon sale of the property.
- (4) Additional costs to complete the liquidation include legal and professional costs to complete a transaction for the property.
- (5) Total amount of unpaid real estate taxes and penalties as of July 31, 2004 will be \$457,750. In order to complete a transaction it is assumed that the real estate taxes will be required to be paid at closing.
- (6) The secured debt includes both Associated Bank (as lead lender) with a first mortgage on the property and Carlton Financial which has a first secured position of furniture and fixtures. Because the liquidation analysis does not attempt to differentiate the proceeds among the various assets, the analysis above reflects only the net total recovery to the two secured parties.